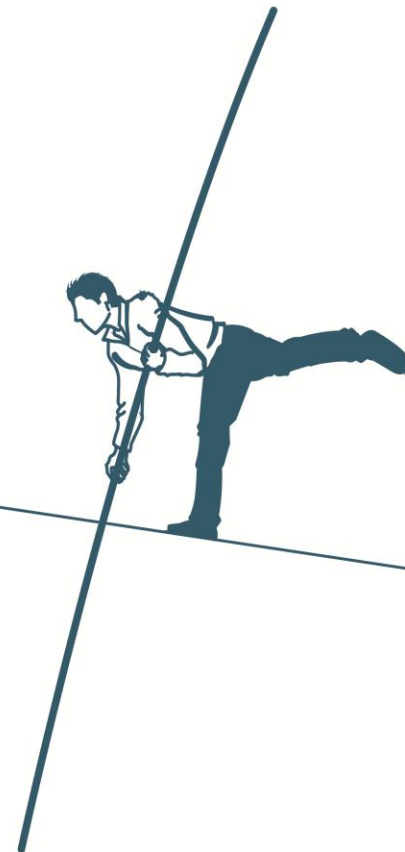


ACHIEVING THE RIGHT BALANCE

CalPERS Board Governance Study
Second Reading for Approval

September 13, 2011



1. SUMMARY OF CONSIDERATIONS

This document contains second readings of three governance topics. Subsequent to the September 2011 Board of Administration meeting, Funston Advisory Services LLC will prepare a final report which includes all the governance approvals from the August and September board meetings and the analysis and rationale for each.

Summary of Considerations

- A. Principles for Effective Governance of Public Pension Funds
- B. Role of the Board and Committees
- C. Role of President and Vice President / Chairs and Vice-Chairs
- D. Powers Reserved
- E. Committee Structure
- F. Delegations to Executives and Board Reporting Relationships
- G. Setting the Board Agenda and Improving Reporting to the Board
- H. Board Self-Assessment Process
- I. Board Self-Development Process
- J. Selected Policies Governing Board Conduct

Indicates items for second reading and approval today

Summary of Considerations

D. Powers Reserved

Recommendation:

- Adopt the proposed Powers Reserved for the Board and realign the CalPERS Statement of Governing Principles and committee charters and delegations to reflect the newly-defined powers reserved, as appropriate.

Note: The following Powers Reserved for the Board have been developed and refined with input from the board president and vice president and the committee chairs and vice chairs, as well as the executive staff and fiduciary counsel. They are organized by topical area and listed for your reference and approval.

Recommended Powers Reserved

Topic	Proposed Powers Reserved for the Board
Board	Conduct administrative hearings and decide appeals
Board	Conduct discipline if a member fails to meet board standards of conduct
Board	Conduct selection and evaluation of board and committee consultants (e.g., executive compensation, CEO/CIO recruiting, health care, actuarial)
Board	Conduct setting of the board and committee agendas by identifying, articulating, prioritizing and scheduling matters and reports the board will regularly address
Board	Approve information to be delivered to the board, including benchmarks which trigger board review
Board	Set legislative priorities and approve legislative policy and legislative positions
Board	Approve major litigation
Board	Set and approve mission and vision
Board	Approve board delegations to executive and/or third parties (excluding investments)
Board	Approve organization performance metrics and oversee overall organization performance
Board	Approve overall communications strategy
Board	Approve and adopt regulations relating to CalPERS
Board	Conduct election of board president and vice president
Board	Oversee stakeholder relations
Administration	Oversee business continuity and disaster recovery
Administration	Approve contracting policies and oversee effective management of service provider contracts
Administration	Oversee operations and cost effectiveness

Recommended Powers Reserved

Topic	Proposed Powers Reserved for the Board
Finance	Approve accounting policies
Finance	Approve enterprise-wide budgets and resource allocations and oversee budget process
Finance	Approve business plans and oversee business planning process
Finance	Approve financial reports and oversee controls over financial reporting and processes
Finance	Set overall organization strategy, oversee strategic planning process, and approve strategic plans
Finance	Approve, as required, and oversee actuarial, external, financial, internal, and real estate audits and reinsurance
Finance	Select and approve the external auditor
Finance	Oversee financial soundness of the overall CalPERS system, including annual review of unfunded liability, overall pension soundness and sustainability, health programs, and any other programs offered
Finance	Oversee cash management to ensure sufficient cash is available to pay benefits and operating expenses
Finance	Oversee interaction of cash management and liquidity management processes
Governance	Conduct and oversee periodic board self assessment of effectiveness, policies governing board conduct, and utilization of board resources, time, and processes
Governance	Approve board committee roles and charters including creating and disbanding standing and ad hoc
Governance	Approve board governance principles and policies
Governance	Approve board member election calendar
Governance	Approve board self-development education program and budget
Governance	Oversee board processes and organizational accountability
Governance	Conduct an annual review of powers reserved, delegations and committee charters, and update, as appropriate
Governance	Oversee the process of board member and board direct report disclosure statements and compliance

Recommended Powers Reserved

Topic	Proposed Powers Reserved for the Board
Health	Approve health benefit plans and rates and oversee health benefit plan contracting
Health	Set and oversee health care strategy and oversee health care research
Health	Oversee administration of CalPERS self-funded health plans
Health	Oversee cost and quality of health care program
Health	Oversee CalPERS leadership in health care strategy
Health	Oversee health administration cost effectiveness
Health	Approve long-term care plans and rates and oversee long-term care plan contracting
Health	Set and oversee long-term care strategy and oversee long-term care research
Health	Oversee cost and quality of long-term care
Human Resources	Conduct goal setting and evaluation and set compensation for the CEO and CIO
Human Resources	Conduct hiring/firing of the CEO and CIO with input from the CEO regarding the CIO hiring/firing
Human Resources	Conduct long-term succession planning for the CEO and CIO
Human Resources	Approve and oversee senior executive long-term succession planning
Human Resources	Oversee setting of salary ranges, salary, and bonus schedule for the CFO, Chief Actuary, General Counsel, COIO and Investment Management positions according to the established Compensation Policies and Procedures
Human Resources	Approve human resource executive compensation policies
Human Resources	Advise CEO regarding hiring/firing of CFO, Chief Actuary, and General Counsel and retain veto authority on CEO decision

Recommended Powers Reserved

Topic	Proposed Powers Reserved for the Board
Investments	Approve strategic asset allocation (including expected rate of return and risk) and active risk budget for each trust for which the Board has fiduciary responsibility; approve the total fund policy benchmark for each trust
Investments	Approve and oversee asset class strategic plans, portfolio construction guidelines, target rate of return, and benchmarks
Investments	Approve and oversee compliance with investment policies
Investments	Set investment beliefs to guide investing strategies
Investments	Set investment risk appetite and tolerances
Investments	Oversee investment performance
Investments	Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet investment obligations (e.g. capital calls, collateral calls).
Investments	Conduct selection and oversee performance of board consultants who provide investment-related expertise to the board
Investments	Oversee selection process and performance of investment partners, managers and consultants, including addressing diversity policies and objectives
Investments	Approve major investment-related litigation
Investments	Oversee cost effectiveness of the investment program
Investments	Oversee investment office risk assessment and control environment
Investments	Oversee environmental, social and governance (ESG) program
Pension	Approve actuarial policies and methods and actuarial assumptions (including discount rate)
Pension	Approve actuarial valuations and employer rate setting
Pension	Approve policies which affect retirement benefit administration, as appropriate
Pension	Oversee member service delivery quality and efficiency
Pension	Oversee pension research

Recommended Powers Reserved

Topic	Proposed Powers Reserved for the Board
Risk	Approve enterprise risk policies framework and oversee effectiveness of enterprise risk management
Risk	Approve risk appetite and strategy (excluding investment risk)
Risk	Oversee Investment Office risk management processes, including investment risk management, investment policy compliance monitoring, and operating risk management.
Risk	Oversee all enterprise diversity programs
Risk	Oversee enterprise program and policy compliance
Risk	Oversee privacy and security compliance
Risk	Oversee review of alleged breaches of CalPERS Code of Ethics by board or executives
Risk	Oversee service provider compliance (including harmonizing conflict of interest policies)

Summary of Considerations

E. Committee Structure

Recommendation: Adopt the following policies and revisions to the board committee structure:

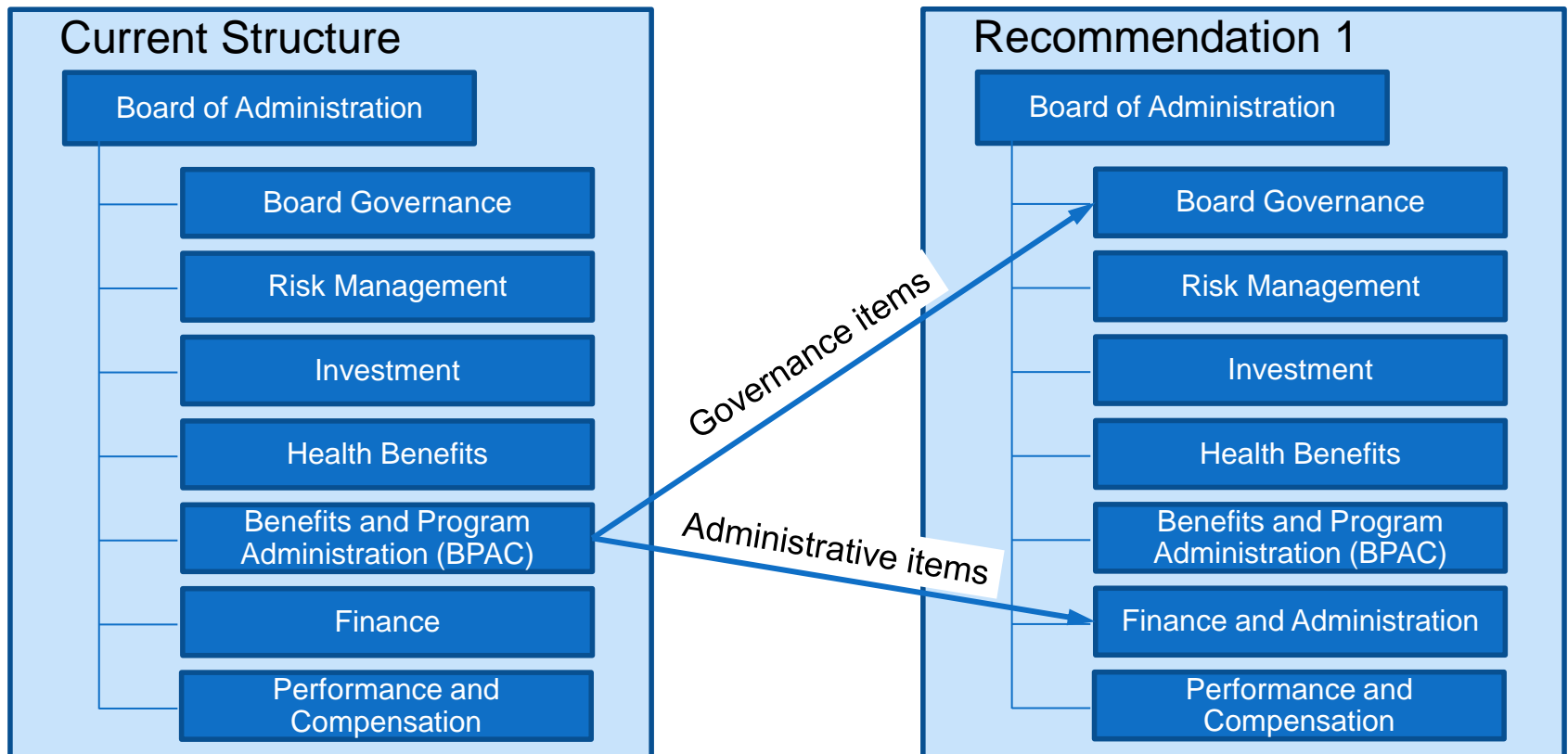
- Ensure the process for nominating and electing committee chairs and vice chairs is transparent and well understood.
- Adopt a policy to review committee charters annually and update as needed.
- Move governance items out of BPAC into the Board Governance Committee and move administrative items out of BPAC and into Finance (renamed Finance and Administration Committee) – Recommendation 1.
- Reduce the number of committees by consolidating Health Benefits and the remaining elements of BPAC into the Pension and Health Benefit Programs and Policy Committee – Recommendation 2.
- Reconfigure Finance and Risk Management to improve independent reinsurance by consolidating all reinsurance activities into a revised Risk and Audit Committee – Recommendation 3.

Findings – Recommendation 1

- Recent BPAC agendas have included topics such as:
 - Financial and investment reporting requirements.
 - Contract disclosure policy.
 - Proposed legislation for gifts and travel and post-separation employment.
 - Board member election process.
- Board members have stated that BPAC meetings are often disjointed and poorly coordinated.
- The current BPAC charter does not describe responsibility for items which do not directly relate to benefit programs and their performance.

Recommendation 1

- Move governance items out of BPAC into the Board Governance Committee and move administrative items out of BPAC and into Finance (renamed Finance and Administration Committee).



Findings – Recommendation 2

- The BPAC and Health Benefits Committees each maintain separate agendas which address different sets of policy issues, i.e., pensions and health care.
- However, there is significant overlap among members, employers and customer service infrastructure across the pension and health care policies of the two committees.
- In addition, the new CalPERS staff organization model combines pension and health care policy into a new Benefits and Program Policy division.
- Consolidating BPAC and the Health Benefits Committee could enable better coordination of the agenda and issues for oversight.
- Among the five U.S. participating funds in the governance survey who offer health care benefits, none have two separate committees for pensions and health care (see next page):
 - Two have a Benefits Committee whose charter includes oversight for both pension and health programs.
 - Three have a Health Care Committee which addresses health programs oversight; however, none of these three have a separate committee for pension program oversight (and one Health Care Committee is a committee of the whole board).

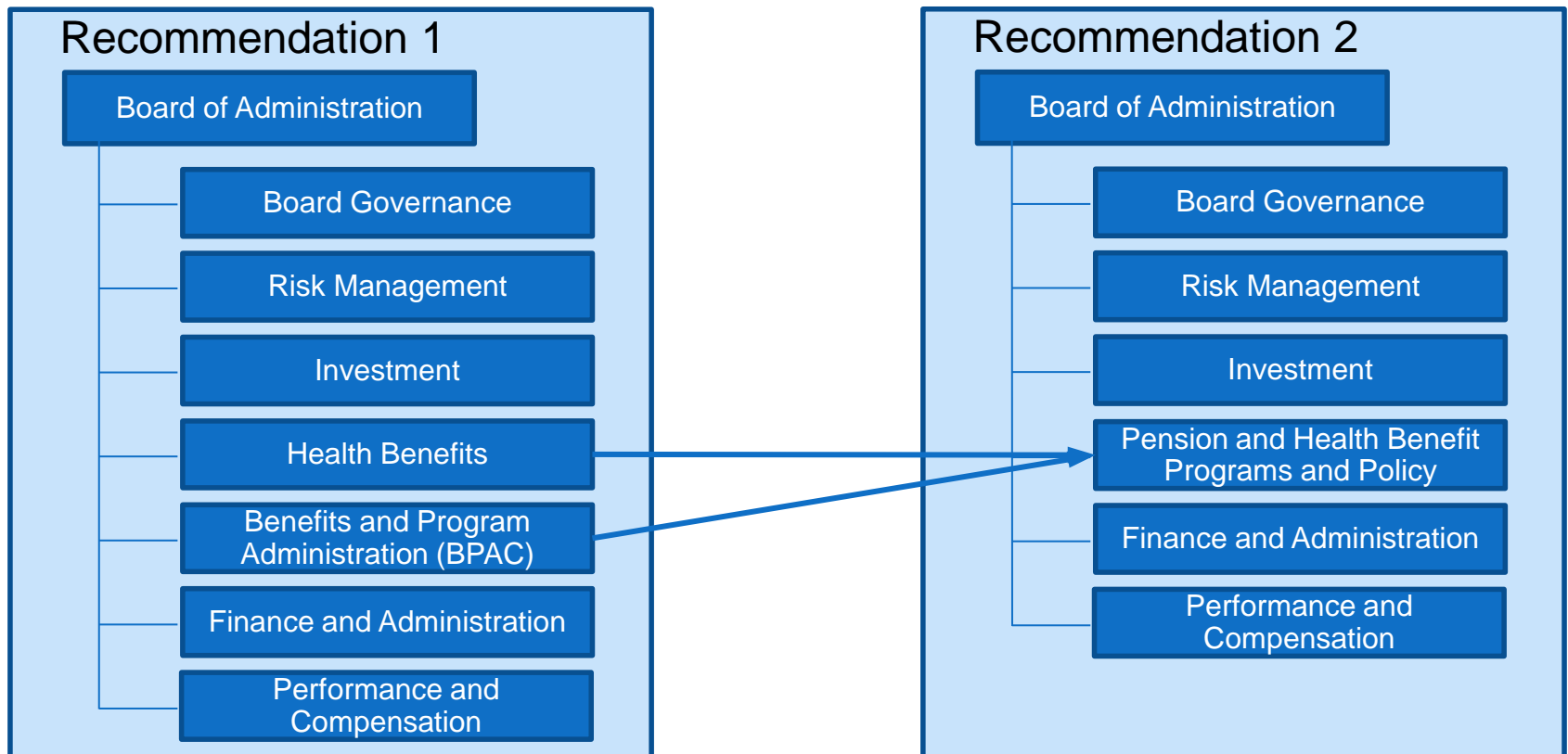
Findings – Recommendation 2

Committee	Funds Offering Health Care Benefits					Memo: CalPERS
	TX TRS	OH PERS	OH STRS	PA PSERS	CO PERA	
Benefits (combined pension & health)	Benefits				Benefits	
Health Benefits		Health Care*	Health Care	Health Care		Health Ben.
Pension Benefits / Actuarial						BPAC
Investment	Inv. Mgt.	Investment	Investment	Finance	Investment	Investment
Audit	Audit	Audit	Audit	Audit & Budget	Audit	
Performance & Compensation / Personnel		Personnel & Salary Rev.	Staff Benefits	Personnel		Perf. & Comp.
Finance/Budget	Budget	Budget & Planning			Comp. & Budget	Finance
Policy / External Affairs	Policy			Bylaws/ Policy	Stakeholder Relations	
Appeals / Disability Review	Appeals		Final Average Salary	Appeals/ Member Services		
Shareholder Responsibility / Corporate Governance		Proxy Pol. & Corp. Gov.		Corporate Governance	Shareholder Respons.	
Board Governance		Governance		Elections		Governance
Executive					Executive	
Risk	Risk Mgt.					Risk Mgt.
Technology				Tech. Strg.		

* Committee of the whole board

Recommendation 2

- Reduce the number of committees by consolidating Health Benefits and the remaining elements of BPAC into the Pension and Health Benefit Programs and Policy Committee.



Findings – Recommendation 3

- The Finance Committee is currently responsible for oversight of actuarial, external, financial, internal, and real estate audits and reinsurance, as well as enterprise compliance.
- The Risk Management Committee is currently responsible for approving CalPERS risk appetite and oversight of enterprise risk management and all non-audit reinsurance.
- Each individual committee of the board is responsible for oversight of management's assurances in their respective areas, e.g., the Finance Committee is responsible for oversight of assurance of financial processes.
- It is a prevailing and leading practice to have audit oversight separate from finance oversight.
- It is an emerging leading practice to have independent reinsurance by a separate board committee which oversees all reinsurance activities.
- The following page highlights the committee structure for audit, finance and risk for the thirteen U.S. funds in the governance survey:
 - Two have audit and finance oversight in the same committee (similar to CalPERS).
 - Ten have audit oversight separate from finance – a prevailing and leading practice.
 - Three combine audit and risk oversight in the same committee – an emerging leading practice.

Findings – Recommendation 3

	Committee Responsible for:			
U.S. Funds	Audit	Finance/ Budget	Non-Investment Risk	Committee Model
CalPERS	Finance	Finance	Risk Mgt.	Audit and Finance together, separate Risk
PA PSERS	Audit & Budget	Audit & Budget	Full Board	Audit and Finance together, no Risk
PSRS Missouri	Budget & Audit	Budget & Audit	Full Board	Audit and Finance together, no Risk
TIAA-CREF	Audit	Fin. & Risk Mgt.	Fin. & Risk Mgt.	Separate Audit, Finance and Risk together
CalSTRS	Audits & Risk Mgt.	Full Board	Audits & Risk Mgt.	Audit and Risk together
NY STRS	Audit	Executive	Audit	Audit and Risk together
Maryland SRPS	Audit	Administrative	Audit	Audit and Risk together
Texas Teachers	Audit	Budget	Risk Mgt.	Separate Audit, Finance and Risk
WSIB	Audit	Administrative	Full Board	Separate Audit and Finance, no Risk
Ohio PERS	Audit	Budget & Planning	Full Board	Separate Audit and Finance, no Risk
CO PERA	Audit	Comp. & Budget	Full Board	Separate Audit and Finance, no Risk
Ohio STRS	Audit	Full Board	Full Board	Audit only
Illinois Teachers	Audit	Full Board	Full Board	Audit only
Nevada PERS	Full Board	Full Board	Full Board	No committees



Combined audit and finance oversight



Separate audit and finance oversight



Combined audit and risk oversight

Findings – Recommendation 3

The financial information provided to the Finance Committee is a different view than what is contained in the audited financial statements, as highlighted below:

Finance Committee Reports

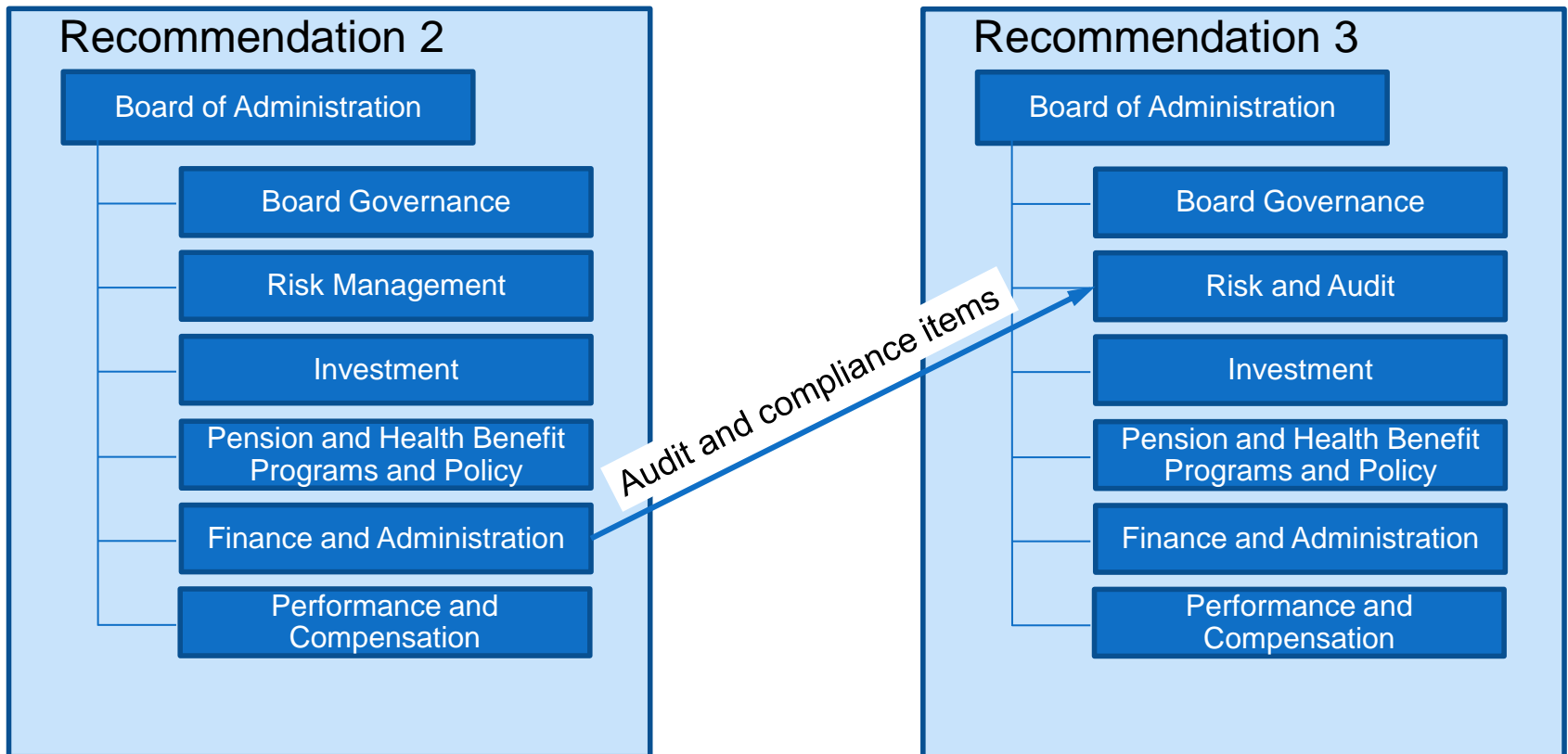
- Annual and mid-year budgets for administration, investments, projects, building headquarters, and for other pension funds (e.g., Legislators' and Judges' Retirement Systems) and other funds (e.g., Health Care Funds and Post-Employment Health Care) are presented for approval.
- Budget-to-actual expenditures for each fund are monitored at the division level or at the total fund level.
- Reports are received quarterly, one quarter in arrears.
- An overview of the financial statement, highlighting key points, is received at the same time the committee approves the audited statements.
- Finance reports are presented at a different level of detail than the audit reports.

Financial Statement Audit Reports

- This information is only reported to the Finance Committee when the audit is presented.
- Includes statement of changes in Fiduciary Net Assets, Statement of Revenues and Expenditures and Statement of Cash Flows.
- Statement of Changes in Fiduciary Net Assets report includes all assets and liabilities of the funds, such as member and employer contributions, investment income, retirement benefit payments, and refunds of contributions.
 - Includes one line-item for administrative expenses reported at the aggregate level, after any cost allocations for other funds.
 - Also includes fund balance to illustrate the net increase or decrease in the funds.
- Statements include several accounts at a very high level that do not tie directly to the reports reviewed by the Finance Committee, e.g., cash, fair value of investments, and liabilities.

Recommendation 3

- Reconfigure Finance and Risk Management to improve independent reassurance by consolidating all reassurance activities into a revised Risk and Audit Committee.



Considerations – Recommendations 1, 2 & 3

- Pros

- The recommended board committee structure will better mirror the staff organization structure, improving the board/staff interface and agenda coordination.
- Moving governance-related topics to the Board Governance Committee will facilitate improved board-staff interaction and agenda management on those topics.
- Moving administrative topics to the Finance Committee and renaming it the Finance and Administration Committee will:
 - Improve board-staff interaction and agenda management.
 - Provide a clear and visible forum for administrative topics.
- With the new Pension and Health Benefit Programs and Policy Committee, all member and employer issues will be addressed in one committee.
- Moving oversight for audit-related and compliance topics to a renamed Risk and Audit Committee will consolidate all reassurance oversight under one committee, providing an additional check and balance on management's assurances, consistent with prevailing and leading practices.
- Overall consolidation will result in one less committee to support.

Considerations – Recommendations 1, 2 & 3

- Cons
 - Potential disruption from changing committee responsibilities.
 - Pension and health topics are potentially too broad and diverse for one committee to effectively handle.
- Risks of actions / inaction:
 - Risks of actions
 - Potential transition risk in making committee structure changes.
 - Risks of inaction
 - Continued dissatisfaction of board members with performance of BPAC.
 - Potential lack of coordination and/or redundancy in actions between BPAC and Health Committees.
 - Potentially reduced independence of audit oversight and less independent reassurance of management process integrity.
- Cost/Economic Impact:
 - Cost to implement new committee charters: staff time.

Findings – Alternative 4

- It has been proposed to consider consolidating the Finance Committee and the Risk Management Committee in order to further streamline the committee structure.
- As highlighted in Recommendation 3, this would have several key disadvantages and is not recommended:
 - Reduced focus on risk oversight due to broad mandate of the potential combined committee.
 - Reduced independent reassurance and oversight of the CFO function and financial processes.
 - Breadth and diversity of topics (finance, administration, audit, risk) would reduce the effectiveness of the committee and/or result in a workload balance challenge (see following page for list of powers reserved for potentially combined committees).
 - From an external perspective, this is in contradiction with the pension industry leading practice of separation of audit oversight from financial oversight.

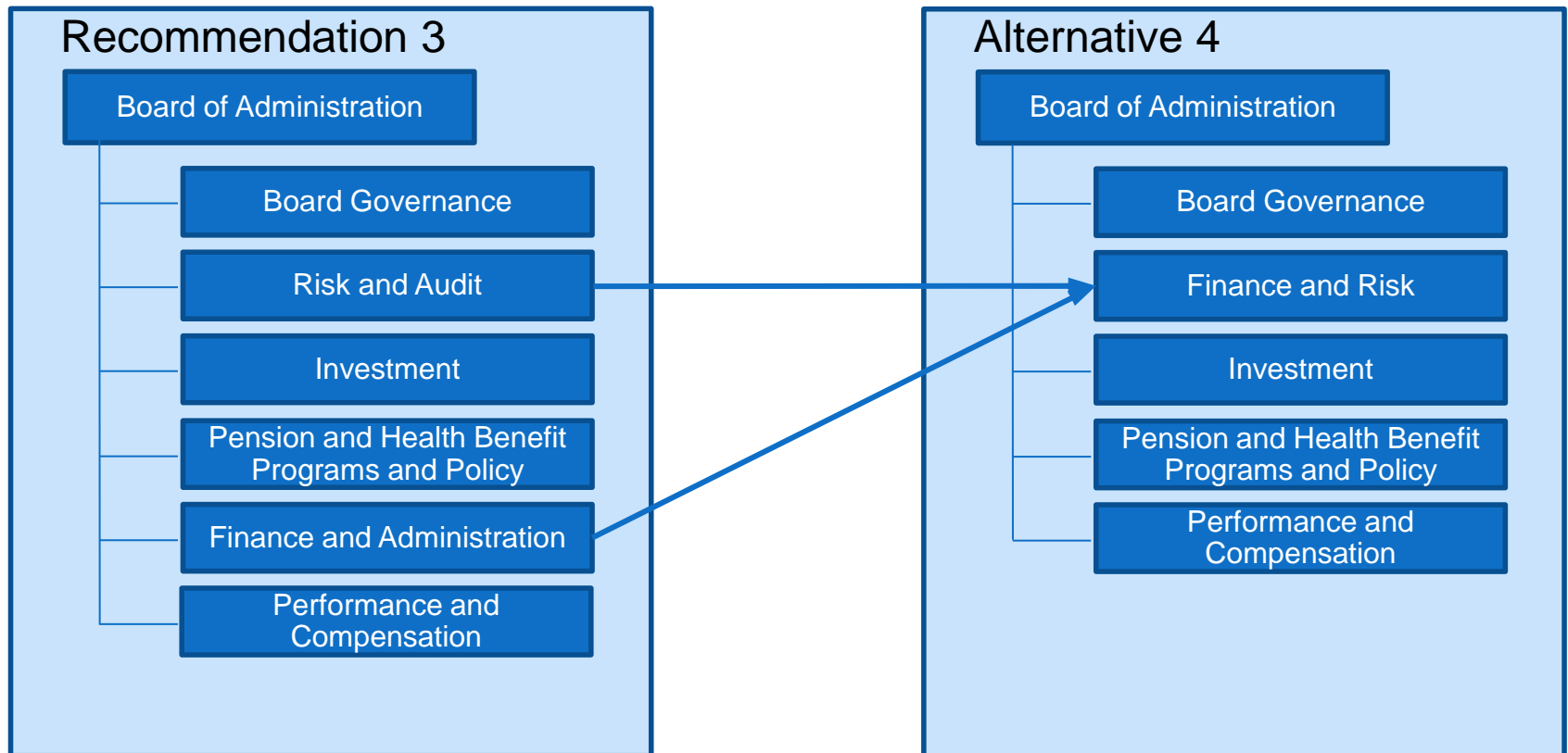
Findings – Alternative 4

Powers Reserved for Potential Combined Finance, Administration, Audit and Risk

1. Approve accounting policies
2. Approve enterprise-wide budgets and resource allocations and oversee budget process
3. Approve business plans and oversee business planning process
4. Approve financial reports and oversee controls over financial reporting and processes
5. Set overall organization strategy, oversee strategic planning process, and approve strategic plans
6. Approve, as required, and oversee actuarial, external, financial, internal, and real estate audits and reinsurance
7. Select and approve the external auditor
8. Oversee financial soundness of the overall CalPERS system, including annual review of unfunded liability, overall pension soundness and sustainability, health programs, and any other programs offered
9. Oversee cash management to ensure sufficient cash is available to pay benefits and operating expenses
10. Oversee interaction of cash management and liquidity management processes
11. Oversee business continuity and disaster recovery
12. Approve contracting policies and oversee effective management of service provider contracts
13. Oversee operations and cost effectiveness
14. Approve enterprise risk policies framework and oversee effectiveness of enterprise risk management
15. Approve risk appetite and strategy (excluding investment risk)
16. Oversee Investment Office risk management processes, including investment risk management, investment policy compliance monitoring, and operating risk management.
17. Oversee all enterprise diversity programs
18. Oversee enterprise program and policy compliance
19. Oversee privacy and security compliance
20. Oversee review of alleged breaches of CalPERS Code of Ethics by board or executives
21. Oversee service provider compliance (including harmonizing conflict of interest policies)
22. Oversee whistleblower and hotline processes

Considerations – Alternative 4

- Combine Finance and Risk Management into one new committee (not recommended).



Considerations – Alternative 4

- **Pros**

- Consolidating the Finance and Risk Management Committees would reduce the number of committees.
- All financial, audit and risk topics would be handled by one committee.

- **Cons**

- Lack of independent reassurance for the financial function and processes.
- Topics are potentially too broad and diverse for one committee to effectively handle.
- Potential loss of focus on risk oversight due to broad mandate of committee.
- In contradiction with pension industry leading practice of separation of audit oversight from financial oversight.

- **Risks of actions / inaction:**

- Risks of actions
 - Loss of independent reassurance oversight for all functions under the CFO.
 - Potential work overload of new committee due to broad range of topics.
 - Potential loss of focus on risk due to number of finance, administration and audit issues.
 - Potential transition risk in making committee structure changes.
- Risks of inaction
 - Continue to have two separate committees for Finance and Risk Management.

- **Cost/Economic Impact:**

- Cost to implement new committee charters: staff time.

Summary of Considerations

G. Setting the Board Agenda and Improving Reporting to the Board

Setting the Board Agenda

Recommendation: Adopt the following policies:

- The setting of the board agenda is tied directly to the annual planning calendar.
- The board agenda is tied directly to the board's approval and oversight responsibilities and related outcomes.
- The President and CEO, in consultation with the Committee Chairs, actively engage the board in setting the strategic agenda and review and adjust quarterly.
- The CEO engages the board in collaboratively developing the strategy.
- The board, working with the executive staff, develops and adopts a concise, consistent framework for agenda decision items which includes, for example, the recommendation, description and analysis of alternatives considered, pros and cons of the recommendation, risks of action and inaction, long-term implications, and costs and benefits. This framework is to be used by the board and committees for all agenda decision items.

Summary of Considerations

G. Setting the Board Agenda and Improving Reporting to the Board (cont'd)

Reports and meeting protocols

Recommendation: Adopt the following policies:

- The board will maintain a list of significant topics/issues which are of interest to the full board but are delegated for deliberation and recommendation to one of the board committees (e.g., pension soundness, organization strategy). Each committee will report on its discussions and deliberations of significant issues and present its recommendations to the full board to ensure that each member is adequately informed. Likewise, each board member has a responsibility to stay apprised of key issues being addressed by the various committees.
- The board and each committee will review all current information reports to determine those which are statutorily required and those which may be streamlined or removed.
- The board will define its information requirements, the thresholds that trigger board attention for each topic, and the frequency of standard reports.
- The CEO is responsible for keeping the board appropriately informed and escalating issues on a timely basis.
- The board will make use of consent agendas to bundle items which do not require debate into a single voting package to expedite approval of routine matters.

Summary of Considerations

G. Setting the Board Agenda and Improving Reporting to the Board

Reports and meeting protocols (continued)

Recommendation (continued): Adopt the following policies:

- The President and CEO are responsible for managing the effective and efficient flow of information to the board without being overly detailed.
- The CEO will assign a specific senior executive to coordinate with each committee and collaboratively develop the annual agenda proposals, and the effective and efficient flow of pertinent information is a compensable performance goal for the responsible executive.
- Each committee maintains a standing set of questions pertinent to recurring decisions or oversight for that committee. This would typically include questions related to the potential outcomes of a decision and their impact on the goals of CalPERS (e.g., What is the long-term impact of this decision on our members? How does this decision mitigate risk?)
- Adopt a policy whereby committee chairs are responsible for receiving and prioritizing (based upon established policies) ad hoc requests for new reports and analyses, taking into account the effect on staff time and resources required to produce such reports and analyses.

Summary of Considerations

G. Setting the Board Agenda and Improving Reporting to the Board

Reports and meeting protocols (continued)

Recommendation (continued): Adopt the following policies:

- A sunset review of all reports will be conducted at appropriate intervals to determine their continuing utility.
- A board portal will be implemented to facilitate effective decision making and use of board member time.

2. NEXT STEPS

Next Steps

- Finalize recommendations and approvals.
- Prepare final report to be submitted to the board by the end of September, including a high-level discussion of implementation considerations.

Appendix

1. Potential Alignment of Powers Reserved with Recommended Committee Structure
2. Principles for Effective Governance of a Public Pension Fund
3. Members of the Expert Panel

Potential Committee Alignment of Powers Reserved

Powers Reserved for the Full Board

1. Conduct administrative hearings and decide appeals
2. Conduct discipline if a member fails to meet board standards of conduct
3. Conduct selection and evaluation of board and committee consultants (e.g., executive compensation, CEO/CIO recruiting, health care, actuarial)
4. Conduct setting of the board and committee agendas by identifying, articulating, prioritizing and scheduling matters and reports the board will regularly address
5. Approve information to be delivered to the board, including benchmarks which trigger board review
6. Set legislative priorities and approve legislative policy and legislative positions
7. Approve major litigation
8. Set and approve mission and vision
9. Approve board delegations to executive and/or third parties (excluding investments)
10. Approve organization performance metrics and oversee overall organization performance
11. Approve overall communications strategy
12. Approve and adopt regulations relating to CalPERS
13. Conduct election of board president and vice president
14. Oversee stakeholder relations

Potential Committee Alignment of Powers Reserved

Board Governance

1. Conduct and oversee periodic board self assessment of effectiveness, policies governing board conduct, and utilization of board resources, time, and processes
2. Approve board committee roles and charters including creating and disbanding standing and ad hoc
3. Approve board governance principles and policies
4. Approve board member election calendar
5. Approve board self-development education program and budget
6. Oversee board processes and organizational accountability
7. Conduct an annual review of powers reserved, delegations and committee charters, and update, as appropriate
8. Oversee the process of board member and board direct reports disclosure statements and compliance

Performance and Compensation

1. Conduct goal setting and evaluation and set compensation for the CEO and CIO
2. Conduct hiring/firing of the CEO and CIO with input from the CEO regarding the CIO hiring/firing
3. Conduct long-term succession planning for the CEO and CIO
4. Approve and oversee senior executive long-term succession planning
5. Oversee setting of salary ranges, salary, and bonus schedule for the CFO, Chief Actuary, General Counsel, COIO and Investment Management positions according to the established Compensation Policies and Procedures
6. Approve human resource executive compensation policies
7. Advise CEO regarding hiring/firing of CFO, Chief Actuary, and General Counsel and retain veto authority on CEO decision

Potential Committee Alignment of Powers Reserved

Pension and Health Benefit Programs and Policy

1. Approve actuarial policies and methods and actuarial assumptions (including discount rate)
2. Approve actuarial valuations and employer rate setting
3. Approve policies which affect retirement benefit administration, as appropriate
4. Oversee member service delivery quality and efficiency
5. Oversee pension research
6. Oversee pension administration cost effectiveness
7. Approve health benefit plans and rates and oversee health benefit plan contracting
8. Set and oversee health care strategy and oversee health care research
9. Oversee administration of CalPERS self-funded health plans
10. Oversee cost and quality of health care program
11. Oversee CalPERS leadership in health care strategy
12. Oversee health administration cost effectiveness
13. Approve long-term care plans and rates and oversee long-term care plan contracting
14. Set and oversee long-term care strategy and oversee long-term care research
15. Oversee cost and quality of long-term care

Investment

1. Approve strategic asset allocation (including expected rate of return and risk) and active risk budget for each trust for which the Board has fiduciary responsibility; approve the total fund policy benchmark for each trust
2. Approve and oversee asset class strategic plans, portfolio construction guidelines, target rate of return, and benchmarks
3. Approve and oversee compliance with investment policies
4. Set investment beliefs to guide investing strategies
5. Set investment risk appetite and tolerances
6. Oversee investment performance
7. Oversee fund liquidity management, including ensuring that the fund has sufficient liquid assets to respond to market conditions and meet investment obligations (e.g. capital calls, collateral calls).
8. Conduct selection and oversee performance of board consultants who provide investment-related expertise to the board
9. Oversee selection process and performance of investment partners, managers and consultants, including addressing diversity policies and objectives
10. Approve major investment-related litigation
11. Oversee cost effectiveness of the investment program
12. Oversee investment office risk assessment and control environment
13. Oversee environmental, social and governance (ESG) program

Potential Committee Alignment of Powers Reserved

Finance and Administration

1. Approve accounting policies
2. Approve enterprise-wide budgets and resource allocations and oversee budget process
3. Approve business plans and oversee business planning process
4. Approve financial reports and oversee controls over financial reporting and processes
5. Set overall organization strategy, oversee strategic planning process, and approve strategic plans
6. Oversee financial soundness of the overall CalPERS system, including annual review of unfunded liability, overall pension soundness and sustainability, health programs, and any other programs offered
7. Oversee cash management to ensure sufficient cash is available to pay benefits and operating expenses
8. Oversee interaction of cash management and liquidity management processes
9. Oversee business continuity and disaster recovery
10. Approve contracting policies and oversee effective management of service provider contracts
11. Oversee operations and cost effectiveness

Risk and Audit

1. Approve enterprise risk policies framework and oversee effectiveness of enterprise risk management
2. Approve risk appetite and strategy (excluding investment risk)
3. Oversee Investment Office risk management processes, including investment risk management, investment policy compliance monitoring, and operating risk management.
4. Oversee all enterprise diversity programs
5. Oversee enterprise program and policy compliance
6. Oversee privacy and security compliance
7. Oversee review of alleged breaches of CalPERS Code of Ethics by board or executives
8. Oversee service provider compliance (including harmonizing conflict of interest policies)
9. Oversee whistleblower and hotline processes
10. Approve, as required, and oversee actuarial, external, financial, internal, and real estate audits and reinsurance
11. Select and approve the external auditor

Principles for Effective Governance of a Public Pension Fund

“... good governance helps to ensure better organizational performance, fewer conflicts of interest, higher probability that goals and objectives will be attained, and less opportunity for misuse of corporate or fund assets.” *Source: Clapman report – Committee on Fund Governance - Best Practice Principles*

Webster’s defines a principle as “a comprehensive and fundamental law, doctrine or assumption; a rule or code of conduct”. The following is a set of core principles for the effective governance of a public pension fund.

These principles have been developed based on peer governance benchmarking, best practice recommendations, academic literature and a review by an expert panel (see attached for a description of the expert panel).

From these principles, leading policies, practices and desired outcomes should be developed. Principles should form the basis for conduct and should guide the decision-making and behavior of the board, the executive and staff.

Principles for Effective Governance of a Public Pension Fund

Six principles of effective public pension fund governance:

1. Effective and Capable Fiduciaries
2. Ethical Leaders
3. Open and Accountable to our Stakeholders
4. Risk Intelligent and Insightful in our Decisions
5. Long-Term View for the needs of our Beneficiaries and System Participants
6. Continuous Learning and Adaptation to Changing Conditions

Principles for Effective Governance of a Public Pension Fund

1. Effective and Capable Fiduciaries

Effectiveness is the super-ordinate principle for fund trustees to fulfill their fiduciary responsibilities to the plan's beneficiaries and participants. These responsibilities must be thoroughly understood. Effectiveness means achieving desired outcomes, including being financially sound based on sensible investment beliefs; admired for customer service and quality of operations; demonstrated commitment to effective retirement and health care solutions for members and employers; and cost-effective administration.

Capability, the corollary of effectiveness, requires competent board members and executives who are able to balance short- and long-term objectives and develop and implement strategies for achieving intended outcomes. This necessitates adequate resourcing and competitive compensation to attract and retain qualified executives and senior managers. It also requires careful attention to allocation of available board time and agency resources toward success in achieving identified mission goals.

An effective governance framework maintains the appropriate balance between the board's responsibility for strategy and oversight and executive responsibility for management.

Principles for Effective Governance of a Public Pension Fund

2. Ethical Leaders

Ethical leadership requires that the board and executive team share values about what is important and work together with mutual respect in a constructive partnership. Together, the board and executive set the tone at the top that permeates the organization. Board members and executives are free from conflicts of interest that may compromise the operations of the fund and the interests of its beneficiaries. Behavioral skills and factors can be important risk or excellence factors and should receive attention as part of a culture of continuous improvement.

The board adopts and discloses explicit policies governing codes of conduct concerning matters such as conflict of interest policies, and gifts and loans, while recognizing the best ethical protection is the moral compass of the individual. Potential or actual conflicts of interest are disclosed on a timely basis. There is a culture of compliance with applicable laws, regulations and organizational policies. There are clearly established whistleblower policies and procedures.

Conflicts of interests also exist throughout the service provider chain. Identification, minimization and management of such risks should be part of a comprehensive code of conduct. Attention to fee structures and inherent conflicts in provider business models can be critical in minimizing risks from exposure to conflicts of interest.

Principles for Effective Governance of a Public Pension Fund

3. Open and Accountable to our Stakeholders

The board and executive are appropriately open in the way key decisions are made and publicly disclosed . Governance rules are clear and disclosed. The board has access to the right expertise and data free from undue influence.

The organization structure and processes provide clear lines of authority and responsibility. Effective metrics are used to monitor strategic, investment, operational, financial and compliance results. Executives are accountable for their performance, and their compensation is directly linked to performance outcomes over appropriate time periods that reflect agency goals and beneficiaries' short- and long-term interests. The board has the authority to hire and fire key officers.

Principles for Effective Governance of a Public Pension Fund

4. Risk Intelligent and Insightful in our Decisions

The board approves the risk preferences and tolerances of the fund, and ensures the enterprise is prepared for low-probability risks and long-term sustainability. An effective enterprise risk management framework is used to consistently monitor and report aggregated risk exposures and the effectiveness of mitigation and control.

The organization is willing to innovate and take calculated risks in the long-term best interests of the beneficiaries and participants.

The management reporting process provides insight, not just data, to enable the board to provide appropriate direction and advice to management and fulfill its oversight responsibilities. The board obtains assurance from management about organizational performance, capabilities and risk exposures and obtains independent reassurance regarding the reliability of management's reports and compliance with policies, laws and regulations. The fund's management process adapts as the economic, legal and regulatory environment and related risks evolve. It also provides for accountability and transparency to beneficiaries and other stakeholders.

Principles for Effective Governance of a Public Pension Fund

5. Long-Term View for Needs of our Beneficiaries and System Participants

The board is actively engaged in establishing the long-term direction of the organization. It adopts a long-term view toward, for example, financial soundness and effective retirement and health care solutions for members and employers. The board integrates short term and long term perspectives on both assets and liabilities. Strategic choices are consciously made based upon strategic analysis and long-term thinking, not just a planning and budgeting process. The board is alert to long-term unintended negative consequences of short-term decisions and maintains strategic flexibility to allow for uncertainty. In order to maximize efficiency and effectiveness, it also prioritizes identification of opportunities to collaborate with other fiduciaries in pursuing shared goals.

Taking a long-term view is likely to be out of sync with influential industry participants that have short-term business models and, at times, with stakeholders that do not have the balanced perspective or obligations of a pension fund fiduciary. This requires attention to both education of stakeholders and management of their expectations.

Principles for Effective Governance of a Public Pension Fund

6. Continuous Learning and Adaptation to Changing Conditions

The board conducts a regular assessment of its performance and capabilities. It identifies the skills and capabilities required to fulfill its fiduciary roles and responsibilities and maintains an inventory of existing trustee skills and capabilities, as well as strengths, weaknesses, gaps and priority development needs.

A board self-development plan addresses the continuous learning and development needs for all board members based on a comprehensive and tailored individual development process. Performance feedback is obtained through an annual board self-assessment process which includes peer-to-peer and 360° assessments and individualized feedback, as well as an understanding of stakeholder views.

Members of the Expert Panel

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